

STATEMENT OF THE HONORABLE WM. LACY CLAY
Before the
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises

“Rating the Rating Agencies: the State of Transparency and Competition”

Good morning Mr. Chairman and Members of the committee. I am elated that the committee is leaving “no stone unturned” in proposing regulations that will correct various ills throughout the investment and credit spectrum. Today’s hearing is yet another example of that.

We have held hearings for the many corporate failings that we witnessed in the last couple of years. In this climate of corporate and individual greed being used as the catalyst for bilking the investing public of their retirements, savings, and other important personal financial goals, there are several other aspects of investments and credit that need scrutiny.

The credit rating agencies have escaped this scrutiny despite their failure to warn investors about the financial straits of companies, including bankruptcies. We have also heard numerous complaints of conflicts of interest and inadequate transparency of its process of recognizing official rating firms.

Rating firms do more than just monitor the credit rating of the individual consumer. Our money market industry depends on the correct and reliable ratings of the credit agencies to monitor the risk of investments held by regulated investment firms.

We must have transparency to understand some of the reasons behind the ratings. Additionally, we must make sure that the rating agencies are completely independent and make their decisions solely on the research gathered in the marketplace. These decisions must not in any way be based on the politics of a parent or controlling business.

We must also examine the abuses of withheld rating, intentional and unsolicited low ratings and lowering the rating of a rival rating service as retaliation for not contracting the business of the rating service.

I look forward to discussing these and other issues during this hearing.

Mr. Chairman, I ask unanimous consent to insert my statement into the record.